

WHAT NEXT IN EXPLOSIVE IRAN?

Extending the Anglo-American Alliance to the Near East

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IN JANUARY 1944, just after the Teheran Conference, President Roosevelt recorded his impressions of Iran in a memorandum to Cordell Hull that ran in part as follows:

"Iran is definitely a very, very backward nation. It consists really of a series of tribes, and 99 per cent of the population is in effect in bondage to the other 1 per cent. The 99 per cent do not own their land and cannot keep their own production or convert it into money or property.

"I was rather thrilled with the idea of using Iran as an example of what we could do by an unselfish American policy. We could not take on a more difficult nation than Iran."

President Roosevelt was undoubtedly right in describing Iran as both extremely backward and extremely difficult to help. Since 1944 Iran has made no appreciable progress in altering the conditions which he described. But the Iranian government has now, in the spring and summer of 1951, added a serious complication to the troubles of the world by "nationalizing" a great foreign-owned oil industry. The irony of the situation—which might be a cause for mirth if the implications were not so grim—is that this measure of ex-

propriation has been adopted, not by a revolutionary government of Marxists, but by one of the most thoroughly "feudal" regimes surviving in the contemporary world.

Paradoxical as it may appear, however, there is a definite logic in this development, which has taken place as part of the revolutionary process initiated by the Communists in Asia. There are two main forces moving Asia today—peasant land-hunger and anti-Western nationalism. The Communists can exploit both of these politically, but a regime based primarily on a land-owning class can maneuver only with the second. Indeed the only real chance such a regime has of keeping power and gaining strong popular support, in the absence of a serious effort to solve the agrarian problem, is to outbid or forestall the Communists in making dramatic moves against the "imperialist" foreigner. It does not matter whether it is a question of gaining national independence from a colonial power, of abolishing "unequal treaties" such as those which formerly provided for extra-territoriality and leased territories in China, or simply of expropriating enterprises owned and operated by foreigners for the economic development of natural resources; the national fervor aroused is always the same, and anyone who stands in its way, from whatever motives of policy, is liable to be denounced as a traitor to his country.

As the ruling group in an Asian feudal society feels itself being undermined by the anti-feudal and anti-imperialist agitation of Communists, it moves more and more in the direction of anti-foreign action, striving to take the lead in the growing popular nationalist movement. Thus Communist influence leads indirectly to policies on the part of conservative anti-Communist groups that help Communism on the world scale insofar as they harm the Western world—yet are at the

It is barely possible to keep up with the kaleidoscopic sweep of events in Persia; but it is possible to understand the underlying factors in Iranian economics and politics which have in recent months transformed what was apparently a placid country of the Middle East into one of the most volatile. G. F. HUDSON, a Fellow of All Souls College, Oxford University, and a regular contributor to the London *Economist*, describes this background situation that has erupted to threaten Western Europe's most important source of oil. Mr. Hudson's article "Needed: A Pacific Pact" appeared in the April issue of COMMENTARY.

same time locally embarrassing for the Communists in that their thunder is stolen from them by their rivals.

If it could be assumed that the Mossadeghs of Asia could permanently consolidate their position against Soviet domination by means of such acts as the expropriation of the Anglo-Iranian Oil Company, there would indeed be some consolation for Britain, America, and other Western nations that may be affected. The free world could then feel that acquiescence in such unilateral measures, however unpleasant, would contribute to the containment of Communism, and it might count such losses in the general category of the sacrifices needed for rearmament. There cannot, however, be any reassurance of this kind, for the reason that there is no prospect that a reactionary regime in a backward Asian country will be able to stabilize itself for any length of time by seizures of foreign capital assets in its territory. The course taken by Prime Minister Mossadegh, though in no way consciously pro-Communist or pro-Russian, can only lead Iran rapidly towards Communism unless some satisfactory compromise between Iran and Britain can be worked out in good time.

THE crux of the situation is that the urge to seize foreign properties is strongest and least inhibited in precisely those countries which are least able to find men capable of operating them. These are the countries where conditions are most feudal, where there is virtually no native middle class, and where almost all economic enterprises requiring large capital investment and managerial skill are foreign-owned. In such a situation there is a most painful contrast between the general poverty of the people and the high standards of living of the foreign managers and technicians employed in oil fields, mines, or plantations; and it is in the interest of the landlords and officials, who are the only other wealthy people in the country, to divert the discontent of the masses from themselves to the foreigner. Up to a point, anti-foreign agitation is not incompatible with a conciliatory and realistic policy on the part of the

ruling authorities in their practical relations with concession-holding foreign nations, for the men at the top usually have some knowledge of the world and are aware of their inability to do without foreign capital. But with the increase of nationalist pressure, the sober and cautious spirits are eliminated; they are assassinated, like General Razmara, or intimidated by threats of a like fate, and replaced by men who have no conception of the difficulties involved in the "nationalization" of foreign enterprises. To the ordinary Iranian, from the humblest peasant and herdsman up to the Majlis deputy, the operation of a complex large-scale modern industry presents no problems at all. The oil is in the Iranian earth by the will of Allah; by the will of Allah it rises to the surface in curiously shaped towers which do not look difficult to construct; all that remains is to sell it abroad at a high price so that all Iranians, and especially the Majlis politicians, may live on it in the comfort and prosperity which, but for the fraud and rapacity of foreigners, they would already be enjoying. All that needs to be done is to pass an act of legislation transferring the automatically accruing profits of the Anglo-Iranian Oil Company from British to Iranian pockets.

The situation in Iran and other Eastern countries on a similar economic level is quite different from that which confronts foreign capital in a country such as India, which has a relatively strong indigenous bourgeoisie and modern industries of its own. In India, indeed, the factors of agrarian unrest and anti-Western nationalism are present, as elsewhere in Asia, but the existence of an efficient civil service and an experienced class of businessmen provides a solid basis for co-operation between Indian and foreign enterprise, whether private or governmental. British firms long established in India have in many cases transformed themselves into successful British-Indian partnerships because there is on the British side confidence in Indian business ability and on the Indian side an understanding of the functions which foreign capital can perform. But in Burma and Indonesia, the Arab countries and Iran, there

are no comparable conditions, and it is difficult to find any middle path between a system which leaves the management of large-scale enterprises fully in foreign hands and an expropriation which delivers it into the hands of ignorant amateurs.

The irony of the "nationalization" enacted by the feudal oligarchy of the Iranian Majlis is accentuated by the fact that its victim is the British Labor government; which has not only the responsibility of protecting British property rights abroad (which, even when they are only private, are all items in Britain's precarious balance of trade), but is itself the majority shareholder in the Anglo-Iranian Oil Company. It is certainly embarrassing for a Labor government, after having nationalized coal, gas, electricity, railways, and steel as measures of domestic policy, to have to take up a position of indignant protest at the nationalization of its own assets in another country—however good may be its case in international law on the basis of definite treaty rights. But British Conservatives can take no pleasure in the Labor government's predicament, for they are only too well aware of the heavy loss to the nation which would result from confiscation of the vast capital sunk in the Iranian oil fields and the probably consequent need to make up oil supplies with dollar purchases. Yet the damage which the British national economy would suffer by the total loss of Iranian oil investments and supplies is a small thing compared with the crisis in world affairs which would soon follow from the failure of the Iranian government to operate the oil fields at a profit.

IF THERE is no compromise whereby Iranian "face" can be saved without substantially altering the present management of the oil industry, the Iranians have two alternatives in trying to run it themselves. They can bring in non-British Western oil experts, who would probably be American, to help them, or they can bring in Russians. Neither course is likely to be satisfactory from an Iranian point of view. It would be an extremely reckless capitalist corporation that would accept a contract to operate a conces-

sion which had just been confiscated in breach of contract from another corporation, and a few individual technicians working under Iranian management would almost certainly not be able to keep the extraction, refining, and marketing of the oil up to the present standards of business and technical efficiency. It is most improbable that Iran could obtain from the West, after expropriating the Anglo-Iranian, enough assistance to maintain the profits of the enterprise, or indeed to keep it solvent.

On the other hand, Mossadegh and his supporters will be most reluctant to turn to Russia for aid. Four years ago Iran refused to grant oil concessions demanded by Russia in the northern provinces, with the excuse that it was national policy not to grant any new oil concessions to anyone; the expropriation of the Anglo-Iranian is now defended on the ground that, if all oil resources are nationalized, no nation can have a grievance on account of discrimination. The Iranian rulers have a fairly good idea of the way Russian technical staffs in Iran would be used, even if Russia consented to provide them without making intolerable conditions, and their aim is to keep out the Russians as well as to drive out the British. But if the expropriation of the Anglo-Iranian does not bring in the golden harvest which the Iranian people have been led to expect, there will inevitably be intensive propaganda by the Iranian Communists (known in Iran as the Tudeh party) for using the services which the Leader of Progressive Mankind would be so ready to provide for a genuine People's Government. Mossadegh (or a successor of similar origin) would then either have to bring in Russians in the desperate hope of saving himself by a pro-Russian policy or would be faced with growing anarchy in the country and finally a Tudeh insurrection.

The fact underlying the present situation is that the Iranian state is, in any case, on the verge of bankruptcy. The fiscal condition of Iran is very similar to that of which American diplomats and advisers had such bitter experience in Kuomintang China and which the Bell Report revealed in the Philippines.

Reckless expenditure without corresponding revenue; the resort to open or concealed inflation; under-assessment or evasion of direct taxation by the wealthy classes through bribery and political influence; a confusion of state accounts which the most expert auditor cannot disentangle; and a complete inability to enforce economic controls through an inefficient and corrupt administration—these are commonplaces of governmental finance in backward countries. Unfortunately, they are usually accompanied by a refusal, in the name of national independence and sovereignty, to consent to any strings being attached to foreign loans or economic assistance. Iran has been trying to get a loan from the World Bank but has been unwilling to accept the bank's conditions, and so long as international lending is to be anything more than the provision of subsidies for spend-thrifts, such conditions cannot be renounced. The landlord-politicians of the Iranian Majlis—the parliamentary body which is in fact a close oligarchy of wealthy families—prefer to stave off national insolvency by seizing a foreign-owned industry which has been up to now an attractive going concern. But if they cannot maintain its efficiency, not only will they fail to obtain the profits for which they hope but they will soon also lose the oil royalties which the company already pays into the Iranian treasury; then the fiscal crisis will be made worse. And when the Iranian government can no longer pay its officials, army, and police, the state administration will crumble, and the way to power will be open for the waiting Communists.

THE whole structure of the Iranian state is, indeed, so rickety that what gives cause for surprise is not that Iran is menaced by Communism, but that it has not already succumbed. How is it that Iran still holds out, while China, with a regime which was no more oppressive or corrupt, has collapsed? The answer lies partly in the circumstances of the last war. In China, as in various parts of Europe, foreign conquest shattered the existing administration and a popular war of resistance against the invader gave the Com-

munists their chance; Iran, on the other hand, though subjected to a temporary occupation by Allied forces, was not fought over or made a theater of guerrilla warfare; thus she emerged more or less unscathed. Iran was, however, the scene of the first great post-war international crisis, for Russia failed to withdraw her troops within the pledged time limit and used them to protect a pro-Russian separatist movement in the northwestern province of Azerbaijan. Under strong American and British pressure, they at length withdrew, apparently in the belief that their puppets in Azerbaijan had been made strong enough to take care of themselves and that the Iranian central government would not dare to challenge Russia by trying to recover the province by force. But that was just what Iran did, and the strength of anti-Russian feeling in the country at that time showed how deeply Iranian nationalism had been aroused by the Russian action.

The Kremlin had indeed revived in full the distrust of Russia almost instinctive in Iranians as a result of more than two centuries of Russian invasions and encroachments on Iran's northern borders, and this habitual suspicion has always been a very powerful factor against the progress of Communism, even though social conditions so strongly tend to promote it. Moscow appears to have learnt something from the fiasco of 1946, and for the last four years has refrained from violence and threats against Iran, confining itself to a steady stream of radio propaganda from Baku, and to underground intrigues aiming to divert Iranian nationalism from an anti-Russian to an anti-British direction. Russia failed after the war to get the oil concession she demanded, but was thereby left the freer to incite the Iranians against the Anglo-Iranian Oil Company.

If the Iranian Communists succeed in capturing power within the next few months, the event will create a situation in the Middle East as grave as that which the Communist conquest of China created in the Far East. Iran is only a part of the oil-bearing region which also includes Iraq and eastern Arabia; this region as a whole

is today the most important oil area in the world, and its control would be of vital strategic significance in the event of another world war. The stake in Iran is British, and in Iraq predominantly British, but American oil interests are now established in Arabia on the southern side of the Persian Gulf and have recently opened up a new oil field in Iraq. Private enterprise in the oil business is naturally competitive, but in view of the immense political issues involved, the British and American governments can no longer afford to take the view that Middle East oil is simply an affair of private capital in which diplomacy should confine itself to giving the customary support to national economic interests. It is essential to have a well-planned over-all policy for the whole region agreed on between Washington and London, so that joint action can be taken if and when political crises arise.

It is true that the present time is hardly propitious for such coordination of policies, for the differences between America and Britain over Far Eastern affairs have produced an atmosphere of resentment and recrimination in America which make it difficult to move towards closer American support for the British position in the Middle East. But the urgent need in Anglo-American relations is not to allocate blame for what has happened over the last few months, but to learn from unpleasant experience the lesson that disaster threatens the free world if Britain and America cannot work together in Asia as they do in Europe.

TO SPEAK of the Middle East today is to think of oil, but it must not be forgotten that at the western and eastern extremities of the region there are already two latent wars which have nothing to do with oil, but offer Russia unparalleled opportunities of mischief-making. To the west, in the littoral of the Mediterranean, the Arab League remains unreconciled to the existence of Israel, while to the east, India and Pakistan continue deadlocked over Kashmir, and Pakistan is threatened in the rear by the irredentist ambitions of the Afghans. Between the Aegean and

the Himalayas, Turkey alone stands solid and single-minded, putting first things first; elsewhere, the countries which the West would like to support and strengthen are engaged either in mutual conflicts and feuds or in anti-Western agitation. Russian power looms in the background ready to strike swiftly from its bases in the Caucasus and Central Asia, and there is far less non-Communist power available regionally to counter the blow than there was when Communist aggression broke loose in Korea last June. The drift of events is toward catastrophe. But the deterioration can still be checked if America and Britain make clear to the world their common interest in access to the oil resources of the Middle East and their determination to oppose jointly, by force if necessary, any Russian conquest of the area.

Meanwhile, the immediate problem is how to meet the emotional aspirations of Iranian nationalism without destroying the efficiency of the Iranian oil industry. It is necessary that all concerned in Western capital investment in Asia should realize fully how strong are the feelings aroused in the masses by the propaganda for nationalization. The idea that a nation's principal natural resources are owned and exploited by foreigners is even more galling to national pride and self-esteem (and the Iranians, with three thousand years of high civilization behind them, are an exceptionally proud people) than it is stimulating to covetousness and envy. Unfortunately, most Western businessmen in the East have been slow to appreciate the situation which confronts them as a result of the awakening of nationalism over the last three decades, and an out-of-date Bourbon attitude towards the new forces stirring in Asia still survives, particularly in the Middle East. The shocks to Western self-confidence and prestige in the Far East from Japanese conquest and Chinese revolutions have broken down the traditional complacency of the "old China hands" and their like to such an extent that—in Britain, at least—they have often become advocates of extreme policies of conciliation and appeasement, especially towards the new regime in China. In Iran, on the contrary,

there has been so little fundamental change since the early years of the century that there has been a tendency among foreign residents to assume that nothing is ever really going to happen there.

THE Anglo-Iranian Company certainly appears to have been taken by surprise by recent events, and it is arguable that if its directors had been prepared at an earlier date to modify their legal rights in Iran's favor, both as regards financial terms and some form of nominal Iranian partnership in the enterprise, the present situation would never have arisen. The Anglo-Iranian has the reputation of being a good employer, and its workers have certainly enjoyed better conditions than prevail in Iran's own industries, but the British oil magnates have had little thought for Iranian popular feeling, and the British government's participation as a shareholder, far from broadening the company's outlook, seems to have had the effect of imparting to it a bureaucratic rigidity.

The only hope of a satisfactory settlement, and even though the initial negotiations have been stalemated at the time of this writing, lies in convincing the Iranian leaders that continued British cooperation will be to their country's economic advantage, while providing them with sufficiently substantial gains, both in national honor and cash, to enable them to resist the extremist violence which will inevitably be brought to bear against any kind of compromise. The British case in international law is an impregnable one, but it would be folly to rely on mere legality unsupported by force against revolutionary movements such as are now stirring Asia; but to use force would be to risk large-scale military complications under the most unfavorable political conditions. If so excellent a moral case as that of the United Nations in Korea has failed to obtain the unanimous support and agreement of the non-Communist world, a war to preserve an oil concession for a particular nation in a

"semi-colonial" Asian country would be the worst possible case on which any major conflict with Communism could be risked. It is essential, therefore, to negotiate with the patience of one who is prepared to hold out for a bargain, but without bluster or threats.

EVEN, however, if some arrangement is obtainable, there will remain in Iran, as in several other countries, the problem of sustaining against Communism an inefficient and socially oppressive regime. Even if the Iranian government manages both to score a political success and increase its revenue by its handling of the oil dispute, it cannot acquire permanent stability except by permanent reforms. It is desirable that somehow external economic aid should be used as a lever for promoting essential reforms; aid without reforms may even make conditions worse, for it enables reactionary rulers to resist internal demands for change to which they might otherwise have to submit.

On the other hand, any strings formally attached to economic aid which involve interference in a country's internal affairs are an affront to national sovereignty. The only way out of this dilemma is by a technique of diplomacy which discreetly impresses on leading politicians the gist of an argument which might thus be summarized: "We want to help you because it is to our interest that your country should be strong and stable. But if you go on governing in the way you do now, it will not be worth our while to help you; it will be better for us to write you off now rather than to pour money into your country while you remain so incompetent and unpopular that you will be unable to resist the Communists anyhow. If you don't improve, we shall have to leave you to sink or swim as best you can—and without us you will certainly sink." If such considerations are politely and persuasively presented—without press conferences or publicity—there is good reason to hope that they will not be without influence.